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MUNICIPAL FINANCES

CORRESPONDENCE BETWEEN

CITY COMPTROLLER TAUSSIG

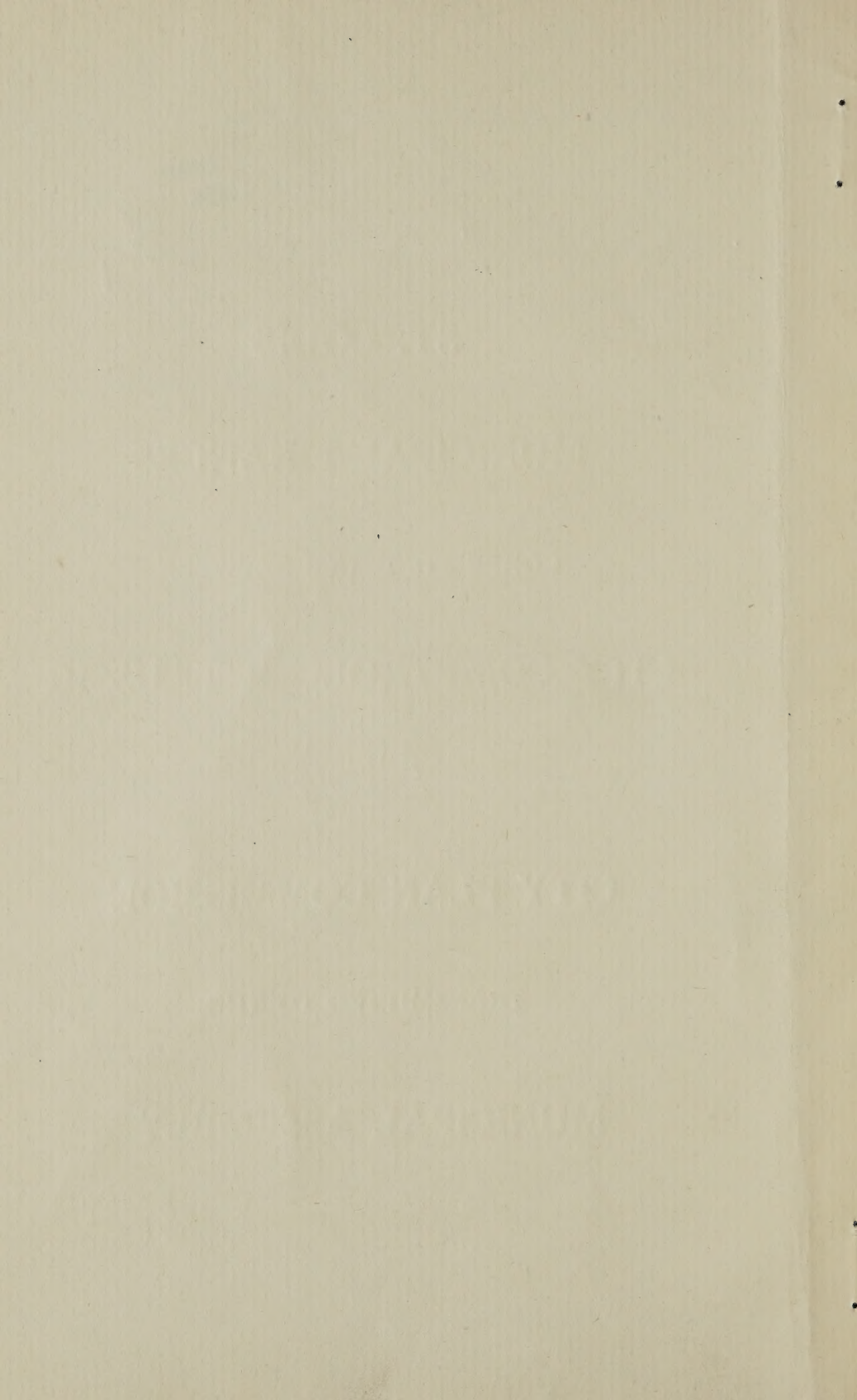
AND THE

CITY PLAN COMMISSION

TRANSMITTED TO THE

MUNICIPAL ASSEMBLY

St Louis City comptroller.



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MUNICIPAL FINANCES

LETTER OF TRANSMITTAL, JUNE 16, 1913.

To the Honorable Municipal Assembly of the City of St. Louis—
Gentlemen:

Correspondence between the City Plan Commission and Mr. B. J. Taussig before he retired from the Comptrollership of St. Louis, is transmitted herewith.

Mr. Taussig's conclusions and recommendations have essential bearing upon the work of the Commission. They show:

1. That the city to-day has the power to increase its bonded debt by \$14,384,901 without exceeding the limit prescribed by the constitution of the state.

2. That the bonded debt of St. Louis to-day is several millions of dollars lower than it was thirty-six years ago.

3. That under the operation of the sinking fund as prescribed by the charter this debt is being paid off rapidly.

Bonds Possible Without More Taxes.

4. That within the coming ten years St. Louis can vote bonds to the amount of \$15,000,000 for general public improvements without increasing the tax rate on interest account.

5. That the policy of trying to pay for general improvements from the general revenue is unjust to citizens; that in the fiscal year 1912-1913 the city appropriated from this general revenue \$1,200,000 for new work, improvements and additions; that it would have been simple justice to the citizens of the present and to those who come after, if the cost of these improvements had been met by the issue of bonds; that the growing practice of providing these outlays, which are additions to the capital of the city, from immediate revenue are wrong; that it is not fair to taxpayers of to-day to require them to assume these heavy burdens for outlays for property, the use of which will be enjoyed for a long period of years.

Needed Permanent Improvements.

6. That an expanding and improving city is like a growing business in requiring more capital, more investment; that if the city could put \$5,000,000 into new public buildings, new sewers, extension

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of the fire service including automobile equipment, a tuberculosis hospital and other institutions for dependents, parks, parkways, playgrounds, bathhouses and comfort stations as rapidly as the money can be expended honestly and economically the city would see immediate and permanent gain in the value of private property and would get back through revenue good dividends on such investments.

7. That for other improvements in which one section realizes a larger proportion of benefit than accrues to the entire city the plan provided in the charter amendment recommended by the City Plan Commission should be applied; that under the plan the cost of this kind of improvements where nearby property is especially benefited would be divided between the city at large and the district in proportion of the benefits afforded. This principle of assessment districts is, in the judgment of Mr. Taussig, vital to the movement for the improvement of the city.

Consideration of the statements and views of the former Comptroller by the Assembly is respectfully requested.

Respectfully,

C. P. WALBRIDGE.

Chairman.

WALTER B. STEVENS,

Secretary.

June 16, 1913.

LETTER OF CITY PLAN COMMISSION, MARCH 15, 1913.

Hon. B. J. Taussig, Comptroller, St. Louis—Dear Sir:

The CITY PLAN COMMISSION respectfully submits the following inquiries:

First: In what amount can the City of St. Louis at this time increase its bonded debt without exceeding the limit prescribed by the constitution of the state?

Second: Basing your opinion upon your four years' experience as Comptroller of the City of St. Louis do you deem it advisable for the city to increase its bonded debt? If so, from your knowledge of the needs of the city in what amount and for what purposes would the increase be advisable?

Third: Is the present bonded debt of the city smaller in proportion to the assessed valuation of the city realty and personalty than it has been in previous years? If practicable the City Plan Commission would like to have a statement by years showing the relation of the city debt for each year with respect to legal borrowing limit.

Sinking Fund and Tax Rate.

Fourth: Under the present bonded debt what is the amount of annual reduction by operation of the sinking fund?

Fifth: In what amount would the tax rate be increased if the bonded debt was increased in the amount you believe to be advisable?

Sixth: What, in your judgment, are the public improvements immediately pressing which cannot be provided for out of the public revenue?

The City Plan Commission will appreciate such data as you may be able to furnish in reply to these inquiries. We believe that such suggestions or recommendations as you may be willing to make in amplification of your answers to the above inquiries will carry much weight with the public.

The members of the Commission feel that the four years' study you have given and the opinions you have formed regarding these matter will be of great value to them in shaping their work.

Very truly yours,

(Signed) C. P. WALBRIDGE, Chairman.

WALTER B. STEVENS, Secretary.

March 15, 1913.

LETTER OF COMPTROLLER TAUSSIG, APRIL 11, 1913.

City Plan Commission of St. Louis—Gentlemen:

Your letter of inquiry, dated March 15, 1913, has been received. It affords me satisfaction to give the information sought in as explicit and detailed form as possible. The financial conditions and problems of the city are not as well understood by our people as they should be. In view of the movement for many needed improvements, in view of the fact that there is widespread desire for changes in the charter, the publicity which the City Plan Commission may give to the information asked is timely.

I will take up your questions in the order presented and answer them:

First: The Commission asks, "In what amount can the City of St. Louis at this time increase its bonded debt without exceeding the limit prescribed by the Constitution of the State?"

St. Louis' Borrowing Margin.

My answer is that the City today has the power to increase its bonded debt by \$14,384,901 without exceeding the limit prescribed by the Constitution of the State.

Second: You ask if, basing my opinion upon my four years' experience as Comptroller of the City I deem it advisable for the City to increase its bonded debt.

I answer that I do think so WITH THE QUALIFICATION THAT THE FUNDS SO REALIZED SHALL BE EXPENDED HONESTLY AND ECONOMICALLY for the most necessary general improvements of permanent character, as only through this method can many of the needed public improvements be provided.

As to the amount and the purposes for which the debt should be increased, I answer:

To provide for such necessary general improvements the issue of \$15,000,000 in bonds should be authorized, and be applied within the next ten years; this, in my opinion, is fully justified. I believe that amount of money can well be spent on necessary general improvements, the cost of which should not be provided out of the current revenues for maintenance of our city government and city institutions and which cannot be so provided if proper and just public services are to be rendered.

We need several millions of dollars for sewer construction if we are to maintain good sanitary conditions. We must complete the Municipal Bridge and its approaches. The city may well invest a considerable sum now for such improvements as the City Plan Commission is working out and for which the general public is to get the benefit in the years to come. The bonds should be issued and the betterments we need should be provided as rapidly as may be practicable. By general improvements I mean those from which the public at large derives the benefit, where one section of the city does not get an undue proportion of the benefit over another.

The Vital Charter Amendment.

For other improvements in which one section realizes a larger proportion of benefit we should have the charter amendment which the City Plan Commission has recommended and which would enable us to form assessment districts. Under that plan, to which the proposed amendment applies, the cost of this latter character of improvements would be divided between the city at large and the district in the proportion of benefits afforded. The principle of assessment districts is, in my judgment, vital to the movement for the improvement of the city. The bonds should be issued only in the order in which the needs present themselves as most important. The issue of bonds should not be considered as an increase of the burden of debt. The money thus expended in general permanent improvements should be viewed rather as an addition to capital. The expanding and improving city is like a growing business. It requires more capital, more investment. The community that does not add to its investment in betterments is as short-sighted as a business man who ignores opportunities, never enlarges his stock, never extends his plant. We must have these permanent improvements, public buildings, institutions for dependents, sewers, parks, parkways, playgrounds, bath houses, comfort stations, modern equipment for the Fire Department etc., all of these things that tend to make our city more comfortable and more attractive, if the city is to expand as we hope. If we do not we shall not grow; in fact we shall not even keep our place among the cities. These improvements should be obtained by the issue of bonds. The people of St. Louis have only to look to the vicinity of parks and boulevards and playgrounds so far as we have established them to see the prompt influence they exert on the values of nearby property.

Third: "Is the present bonded debt of the city smaller in pro-

portion to the assessed valuation of the city realty and personalty than it has been in previous years?"

A Striking Debt Comparison.

I will answer that somewhat in detail because the comparison is striking and ought to be convincing with this generation of St. Louisans.

In 1877, when the city separated from the county, it had a bonded debt of \$23,067,000, with a floating debt of \$747,302, or nearly \$24,000,000. That was a larger debt thirty-five years ago than St. Louis has to-day.

Viewing our debt by decades, also the assessed valuation of taxable property and the growth of our revenue, we have some striking comparisons. In 1880 our bonded debt was \$22,507,000.

In April, 1912, our net bonded debt (taking into account the amounts in Sinking Funds) was \$23,382,837, which amount was reduced during the fiscal year just closed at \$21,861,249.

In 1880 our assessed valuation of taxable property was \$161,322,600. In 1912 it was \$597,383,680. In other words our net debt is smaller at this time than it was in 1880, while our assessed valuation of taxable property is nearly four times what it was thirty-two years ago. Our total city revenue in 1880 was \$5,113,231. In 1912 it was \$17,394,444, over three times the amount of thirty-two years ago.

The comparison for decades can be traced in the annexed table:

	1880	1890	1900	1912
Assessed valuation of property..	\$161,322,600	\$248,667,085	\$380,765,993	\$597,383,680
City revenue for all purposes....	5,113,231	7,006,614	10,071,735	17,394,444

The Decreasing Debt.

As requested in the letter of the Commission a statement by years is submitted "showing relation of the city debt for each year with respect to the legal borrowing limit during a considerable period."

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STATEMENT SHOWING VALUATION, NET AMOUNT OF BONDS OUTSTANDING, THE AUTHORIZED LIMIT OF INDEBTEDNESS AND THE FURTHER AMOUNT TO WHICH THE CITY COULD INCREASE ITS INDEBTEDNESS, FROM THE FISCAL YEARS 1901 TO 1913, AND BE WITHIN THE LEGAL LIMITATION.

	Assessed valuation	Net outstanding debt allowing for amount in sinking funds	Authorized indebtedness plus exemptions	Additional sum that may be issued and be within legal limit
1900	\$380,765,593			
1901	394,722,242	\$18,684,003	\$19,038,250	\$ 394,277
1902	416,720,646	18,262,413	19,736,100	1,473,687
1903	440,958,173	22,656,222	32,755,000	10,098,778
1904	456,100,777	22,041,721	33,966,000	11,924,279
1905	465,190,961	21,081,813	34,724,000	13,642,187
1906	493,377,665	20,157,192	34,278,500	14,121,308
1907	510,271,603	19,223,468	35,687,750	16,464,282
1908	524,302,020	19,418,348	36,532,550	17,114,202
1909	538,830,211	24,004,354	34,852,000	10,847,646
1910	565,707,843	26,419,281	35,578,500	9,159,219
1911	573,888,210	24,961,636	36,922,350	11,960,714
1912	597,383,680	23,382,837	35,671,400	12,288,563
1913 .....	.....	21,861,249	36,246,150	14,384,901

St. Louis and Other Cities.

St. Louis has to-day a smaller total debt and a smaller per capita debt than any other of the eight largest cities of the United States. In 1890 the city had an outstanding debt of nearly \$22,000,000. In 1905 the debt had been reduced to \$21,081,813, but by reason of the growth of the city in taxable wealth that debt was \$13,642,282 below the legal borrowing limit. Between 1905 and 1910 the bonds for the free bridge and public buildings and other improvements to the amount of \$11,200,000 were authorized and issued so that the net debt outstanding at the close of the fiscal year, 1910, was \$26,419,281. The net debt has been reduced, bringing the total in 1913 down to \$21,861,249. Still the increase in the assessed valuations has sent up the legal limit of its indebtedness to \$36,246,150.

Fourth: "Under the present bonded debt what is the amount of annual reduction by operation of the sinking fund?"

Few citizens aside from those immediately connected with the handling of city finances realize how rapidly the sinking fund is taking care of the existing bonded debt. Our debt is divided into two classes. We have the "general bonds" which were originally issued and renewed prior to 1890. The second class are the bonds issued for the World's Fair and for public buildings and public improvements.

Sinking Fund Reform.

The possible operation of the public buildings and public improvements sinking fund in wiping out the general bonds in eleven years, through investment of that fund in renewal issues of General Bonds, is illustrative of the uses to which unemployed sinking funds could be put, and the benefits to be derived therefrom if authority was given to the Sinking Fund Commission, as I think it should be, to invest sinking fund money in any bonds issued by the city, as shown in the following statement prepared by Associate Comptroller, Mr. Gunn.

By charter amendment in 1890 provision was made for the creation of a sinking fund to redeem bonds issued prior thereto. In all subsequent bond issues special sinking funds were provided.

**PUBLIC BUILDINGS AND PUBLIC IMPROVEMENT SINKING
FUND—HOW ITS ACCRUALS MAY BE USED TO RETIRE
OUTSTANDING GENERAL BONDS IN ELEVEN YEARS,
IF AUTHORIZATION WAS GIVEN TO INVEST ITS
SURPLUS IN RENEWAL ISSUES OF GENERAL
BONDS AS THEY MATURE.**

(September, 1912).

	Amounts Credited to the fund at dates shown	General bonds ma- turing at dates shown	Reduction of interest payments added to sinking fund	General sinking fund would be short at periods shown, the amount shown	Balance in public bldgs and public improve- ments sink- ing fund at dates shown to be in- vested in general bonds as they are re- issued.
1912	\$ 604,043.51				\$1,819,507.05
1913	442,280.88	\$1,155,000.00	\$46,200.00	\$ 108,675.61	2,479,507.05
1914	488,480.88	1,250,690.50	50,027.62	870,885.23	3,039,507.05
1915	538,508.50	1,200,000.00	16,000.00	1,532,376.73	3,599,507.05
1916	554,508.50	945,000.00	16,537.50	1,922,868.23	4,159,507.60
1917	571,046.00	.....	16,537.50	1,351,822.23	4,719,000.00
1918	587,583.50	.....	.....	764,238.78	5,379,000.00
1919	587,583.50	2,578,000.00	45,077.50	2,754,655.23	5,939,000.00
1920	632,661.00	275,000.00	49,260.00	2,396,994.23	6,499,000.00
1921	681,921.00	12,000.00	210.00	1,727,073.23	7,059,000.00
1922	682,131.00	.....	210.00	1,044,942.23	7,619,000.00
1923	682,131.00	.....	.....	362,811.28	8,179,000.00
1924	682,131.00	.....	.....	x 319,319.77	8,739,000.00
1925	682,131.00	1,000,000.00	.....	x 1,450.77	9,299,000.00
1926 .....	.....	.....	.....	.....	9,859,000.00
	\$8,417,141.27	\$8,415,690.50			
x Surplus					

No Increased Tax Rate For More Bonds.

This statement forecasting the growth of the sinking fund show that in eleven years we can have entirely wiped out the "general bonds," by which we mean those issued prior to 1890. The amount of the general bonds is \$8,415,690. The operation of the sinking fund provision applicable to the Public Buildings and Public Improvement bonds will in that same period amount to \$8,179,000. The normal increase in assessable valuation and the judicious handling of the sinking funds should contribute largely to provide added interest charges required by an increase of \$15,000,000 of needed bonds if the issue is to be distributed over a period of ten years.

Fifth: "In what amount would the tax rate for interest be increased if the bonded debt was increased in the amount you believe to be advisable."

This is covered in answer to previous question.

Sixth: "What, in your judgment, are the public improvements immediately pressing which cannot be provided for out of the public revenue?"

My answer to that inquiry is that while in practice the city has been making large capital outlays for permanent general improvements it cannot longer continue to do so and should not do so.

Bonds For Permanent Improvements.

The permanent improvements by which the city at large derives the benefit must be and should be provided by bond issues. The city is undertaking the performance of additional services for citizens, such as the better care of our dependents, the collection of ashes, new service activities in sanitation and the promotion of health, the operation of new play-grounds and the new public comfort stations. The city will be called upon unquestionably to extend its services. If we are going to have more permanent improvements resort must be had to bond issues or else the city's current operations will be hampered through diversions of current revenue and expenditure for capital purposes.

Permanent improvements of which St. Louis to-morrow is to realize as much benefit as—or probably more than St. Louis to-day, should be paid for by the issue of bonds, and by district assessment plan. As I have said, in practice we are trying to pay out of the revenue raised by annual taxation large sums for such improvements. Take the fiscal year 1912-1913, we appropriated from our general revenue \$1,200,000 on new works, improvements and additions. It would have been simple justice to us and to those who come after if the cost of these improvements had been met by the issue of bonds. This growing practice of providing these outlays, which are additions to the capital of the city, from immediate revenue is wrong. It is not fair to the tax-payers of to-day to require them to assume these heavy burdens or outlays for property, the use of which will be enjoyed through a long period of years.

Long Time Bonds Recommended.

Our bond issues have been limited to twenty years. That is a mistake. The life of the bond should bear approximately a relation to the life of the improvement for which it is issued. For example, if we issue bonds for an improvement which will last before renewal

not longer than twenty years, then that issue should be limited to twenty years. But if we issue bonds for the purchase of other improvements which will be utilized with probably growing benefit for generations to come, then the bonds should be for not less than forty years. These long time bonds would be considered more desirable, would command a better price and would be much easier taken care of through sinking fund and final redemption. The obligation would be lightened and contributed to by those getting benefit.

I have repeatedly urged in my reports that municipal bonds be relieved from taxation. That recommendation I would repeat and emphasize. It is obvious that if such bonds are taxable they will be less valuable to the holder who lives within the state and consequently the city will be forced to sell those bonds for less. So to the extent that the city attempts to derive taxation from its own bonds it tends to injure its own credit. It is true most of the bonds escape taxation. The investment in them outside is encouraged; investment by the citizens of St. Louis is discouraged. The interest we pay on the bonds held by the people outside of St. Louis is spent elsewhere. We neither get the taxes supposed to be imposed upon these bonds nor do we get the benefit at home of the interest we pay out. If our municipal bonds are exempt from taxation they will be more attractive to local investors; they will command higher prices and the interest we pay on them will be kept at home.

Charter Changes Advisable.

At the end of the fiscal year, 1913, we had in the sinking fund, through the operation of the charter and ordinance provisions, approximately, \$1,945,441. The existence of that fund is strong evidence that we need a charter amendment which shall permit the investment of this cash in bonds. By such an amendment the city would be able to take advantage of opportunities to buy its bonds. The city would be saving the difference between two percent, which is approximately the amount on cash balances, and four per cent. which bonds would yield. The draft of charter which was submitted two years ago and defeated, included this provision for buying bonds. It provided authority "to purchase with the sinking fund as an investment for it any bonds of the City of St. Louis, State of Missouri or of the United States, preference being given to city bonds."

The proposed charter further provided that "whenever it becomes necessary to pay maturing city bonds the Commission shall have power and authority to sell the bonds held as a sinking fund for

such maturing bonds.' By having such authority the City, in times of temporary stringency, would be able to take care of maturing bonds.

Charter provisions such as I have quoted would make the City independent of temporary conditions in the money market, and enable it to deal easily and profitably with renewal issues of city bonds.

With these provisions allowing the Sinking Fund Commission to buy bonds we would not only save largely on interest but we would be in a position to take care of renewals whenever they were necessary without any serious difficulty which may arise from financial conditions.

Investment In Betterments.

It is surprising that so few people appreciate what a city's wise investment in betterments means from the financial point of view. Every proper investment as I have said is an addition to the capital and that increased capital returns quickly its dividend through the increase in valuations of private property benefited. If we should put \$5,000,000 into new public buildings, new sewers, extension of the fire service including automobile equipment which would be more economical than the present apparatus, a tuberculosis hospital and such improvements as are contemplated by the City Plan Commission we would see immediate and permanent gains in the value of private property. We should get back through our revenue good dividends on such investments.

A most notable recent advance in St. Louis property as the result of park acquisition and improvement is in the northwestern part of the city surrounding the old Fair Grounds. In 1908 the City purchased the Fair Grounds tract for \$700,000, or \$5,428.88 an acre, the tract embracing 128.94 acres. The gradual transformation of this ground into a park has been attended, according to real estate experts, by a very considerable advance of property on all sides of the park, the influence being felt a distance of several blocks. These increases in values have ranged from 25 to 50 per cent, in some instances the increase being even greater.

The Fairground Object Lesson.

This district affected by the establishment of Fairground Park was occupied previous to the change to some extent by moderate and even low-priced improvements, but there was much ground entirely vacant. Since the acquisition and since this transformation to park uses and improvement, much of the vacant ground nearby has been built over by a class of improvements considerably better than those that previously existed. The above is sustained by statements of real estate agents familiar with the locality and by our Department of Assessment.

Upon one block fronting this new park there has been expended the past season \$100,000 in improvements. In the opinion of our assessing department the increase of additional revenue to the city through the increase of values of real estate attributable to the establishment of this park will in a few years more than reimburse the city for that charge which it may have assumed in the purchase of this property.

Respectfully,

(Signed) B. J. TAUSSIG,
Comptroller.

April 11, 1913.



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